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IFRS Based Zakat Reporting: Adoption Rational Western Method Into Institutional Accountability

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ABSTRACT

This study aims to evaluate the characteristics of zakat institution and proposes the adoption of International Financial Reporting Standard (IFRS) since it has developed and provides various product i.e zakat for productive purpose. This is important, considering that one of the measurement of accountability and transparency of an institution is providing brief financial report towards its beneficiaries. Thereby, this study found that practically zakat institution is similar to the SMEs, and there are 11 standard of IFRS for SMEs that could be applicable to zakat institution to achieve accountability and transparency. However, this study is preliminary study that proposes a conceptual framework which limited to the sharia compliance of IFRS that could be applicable to zakat Institution.

Keywords: IFRS for SMEs, SMEs Criteria, Zakat Institution

JEL Classification:

A. INTRODUCTION

By today, we can see the massive development of zakat institution, proven by the growing of zakat fund that had collected by zakat Institution across the globe. For example, several studies such (Al Parisi;2017) and Puskas BAZNAS forecasted that in the 2029 the zakat fund could be collected in Indonesia is 8.33 IDR trillion. It is a huge amount comparing with the zakat collection in 2015 which is only reach 3.7 IDR trillion. However, the potential of zakat fund collection in 2015 itself reach 286 IDR trillion, means the realization of zakat fund collection is not even close with the target. It is because the zakat fund collecting system is voluntary in Indonesia. The more amount of zakat would be collected if the zakat is mandatory by the government.

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Furthermore, the indicator that could be used as a measurement of the development of zakat institution is how far the zakat institution be beneficial toward its beneficiaries. (Hassan and Noor;2015) empirically proved that Capital based zakat fund assistance particularly for retail and manufacturing business that had been done by Selangor Zakat Board (SZB) Malaysia could really help the poor. Moreover, another study discovers that the zakat and waqf fund support low-income household becomes better in social securities and socio economic (Mikail; et.al2017)

Those two studies are evidences of successfull application of zakat fund based Islamic Microfinance institution (Ahmed;2002, Rahman and Dean, 2013, Kaleem et.al;2010). While other study also reveals that the zakat fund had been use through Islamic finance scheme in Indoensian Zakat Institution, and lately known as Zakat for Productive purpose (Yumna and Clarke, undate). This mean, that practically the zakat institution in some countries, such Indonesia and Malaysia had already utilize the zakat fund for productive purpose using Microfinance and Small and Medium Enterprises (SMEs) approach.

However, zakat institution also comes up with some problems, one of it is about the financial accounting standard. As in Indonesia, the financial accounting standard for zakat institution is regulated by the Indonesian Accounting Council (IAI) in the National Accounting Standard (PSAK) for Sharia no 109 about zakat infaq and shadaqa. (Alim;2015) criticized that the application of zakat for productive purpose, which is using the qard hasan (loan) is not permissible in Islam. Therefore, (Alim;2015) suggests that PSAK 109 must be reviewed from fiqh perspectives and IAI must developed the new mechanism and financial reporting for zakat for productive purpose that compatible with fiqh issues.

Beside that, just like the waqf institution, the characteristic of zakat institution, which is a nonprofit and charitable organization, required the institution to apply good corporate governance. The basic principles of good governance which taken from Islamic Values are *amanah*, *adalah* and *syuro*.The application of those values then requires the institution to perform sharia audit, financial audit and etc. (Ihsan and Ayedh;2015) This is important and consider as one of the consequences of *Tauhid*;i.e the accountability to Allah and mankind (including beneficiaries and stakeholders) (Saad, et.al, 2014; Ihsan and Ayedh; 2015)

In order to maintain the accountability and efficiency of zakat institution, other study discusses about the accountability and efficiency practices of charitable organization. For instance (Abd Wahab and Abdul Rahman;2011) disscussed

about the efficiency of Zakat institution using United Nation Development Program (UNDP) good governance standard. They found that Thenical Effiecncy, such Board size and proprtion of professionals on board would lead to Zakat Institution efficiency. Other elements are Pure Technical Efficiency (PTE) and Scale Efficiency would also lead the institution be more efficient.

(Furthermore Yacoob, et.al;2015) discussed about the successfull story of *Waqf (S) institution*, which the institution of Waqf in one of the Southeast Asia non Muslim majority country. They argue that the *Waqf (S) institution* performance is successfull considering to the good management, accounting nd reporting of financial activities of the institution. In addition, they argue that the *Waqf (S) institution* successfull story is driven by regulatory (form government), stakeholders demands and religious image.

From the explanation above, we can know that the development of zakat institution in Indonesia is massive. However, zakat institution in Indonesia also needs an evaluation and suggestion, particularly in the term of financial reporting standard that still have fiqh issues, particularly in the reporting of zakat for productive purpose. This is important, considering that the financial reporting of zakat institution is a measurement of good governance of the institution. Whereas the financial reporting is a measuerement of accountability and transparency of an institution.

B. THEORITICAL

Therefore, this study attempts to evaluate the characteristics of zakat institution and compare it with the characteristics of Islamic Microfinance Institution and Characteristics of Small and Medium Enterprises (SMEs) in Indonesia, so then the International Financial Reporting Standard (IFRS) which is a financial standard that accept globally can be used as a main reference for evaluating the PSAK 109 about zakat infaq and shadaqa. Nevertheless, there is also an Accounting and Audit Organizations for Islamic Financial Institution (AAOIFI) Standard, a standard that also used globally for Islamic Financial Institution (IFI). However, as it was stated before that zakat Institution had practically utilize the zakat fund using Islamic Microfinance channel and SMEs approach, we assume that the zakat institution inderectly labelled as Islamic Microfinance Institution. Therefore, the standar that we use as a main reference in this study is IFRS for SMEs Standard. Since it is also known that AAOIFI had no standard for smaller entities (AOSSG;2015)

I. Ifrs Framework: An Implementation Judgement

One of the main reason why we need the financial reporting standard that has a compliance with IFRS for zakat institution is related to the environment of big companies across the globe whom already applied the financial reporting standard that have a compliance with IFRS. It is because when a company went global, it need a financial standard that accepted globally. With this standard unification, it makes those companies easier to be compared each to another. Furthermore, as a consequence, the companies who have similar standard then issued a financial reporting standard that can be tested, more understandable, neutral, issued on time, competitive and comprehensive. Until now, there are several countries who have already issued financial reporting that has a compliance with IFRS, those are: Korea, India and Canada which already started at 2011. Therefore, Indonesian Accounting Council (IAI) the institution that issues National Accounting Standard (PSAK) made IFRS as a standard for financial reporting in Indonesia since 2012 (Siaran Pers Ikatan Akuntan Indonesia, 24 December 2008)

Another reason why we need IFRS as reporting standard is because the IFRS compliance of financial reporting standard in some countries has been adapted rapidly and it gives more benefits than before for some companies, particularly in improving transparency. Therefore, this reason encourage zakat institutions in Indonesia to apply financial reporting standard which complies to the IFRS in order to improve their transparency and linearly can be compared and compete to other institution (profit or non-profit oriented) particularly in financial performance. This means, IFRS can be used as main reference of financial reporting standard for zakat institution in Indonesia. It is because as it was stated before, that the IFRS is financial reporting standard that has been used globally, whereas it is drafted by many distinguished accounting scholars across the globe. Nevertheless, the compatibility of IFRS and National Accounting Standard (PSAK) in Indonesia is another study that can be explored further.

The uniqueness of financial reporting with Sharia touch especially for Zakat Institutions is that financial reporting must always complies with sharia objectives not just provides useful information for decision makers In this case, IFRS might help to achieve Sharia objective in several ways. For example, establishing good disclosure guidance, contributing to increasing the disclosure level, and providing moretransparency (Alkhtani;2012). This is very much what the Sharia committee needs. Which is full disclosure in financialstatements that will increase accuracy of the reported Zakat amount and preserve social accountability(Al Suhaibani;2012).

Since IFRS requires the use of fair value for fixed assets and liabilities, Zakat reporting standard will be able to make better decisions since financial statements across companies in different countries will be using the same method with regards to valuing assets and liabilities (Alkhtani;2012). Since the market like Indonesia is still a developing, this is an important matter in relation to Zakat Institution to achieve fair value calculations. This issue is exacerbated by the fact that there currently is no regulatory body to enforce valuations in the Indonesian market. As this relates to the calculation of Zakat, the end result could be inaccurate calculations by the Zakat institution (Alkhtani).

From Sharia perspectives, using fair value as applied in IFRS could be more accurate and favourable rather than using the historical cost that traditional financial reporting which have previously used. The use of historical cost data in assessing business zakat is inappropriate for zakat purposes especially in the time of rising prices. This is due to the fact that zakat distribution to its beneficiaries would be undervalued during inflation. Hence, fairness and equitable, which is promoted by Islam may be impaired" (Awang and Mokhtar;2012). Consequently, IFRS may better serve Sharia goals more than traditional financial reporting or it is likely to be considered the same.

Furthermore, the main issue associated with the Zakat Standard relates to the absence of regulation that considers the underlying purpose of Zakat under the tenets of Islam and how Zakat should be classified on financial statements. The current standard only focuses on how to present accounting information and how to disclose this information without really considering the calculation or the source of Zakat (Alkhtani;2010).

2. Ifrs Based Zakat Reporting: The Adoption Process

Indonesia is a country that ruled in a code law (Code law is also known by civil law which is inspired by roman law. It is also known written on a paper or draft which is simplified the law in a code. Principally, the code law is a law that can accessed by all elements of society therefore society can know the law that ruled out in their life. This kind of law has been used by almost 150 countries around the world nowadays. Moreover, this law is initiated by Napoleon bonaparte when he ruled out Europe and netherland brings this method to Indonesia as they colonized Indonesia for over 350 years) whereas the financial reporting issuance is supposed to be issued with 'proper' rate and not for discovering the truth. Moreover, The level of convergence of IFRS to national accounting standard (PSAK) in Indonesia is not fully implemented, whereby some standard such as depreciation, standard for determining the financial loss, leases, and tax is not

included in the national standard. It is because those standard beleived would be counterproductive with the national law.

Therefore, understanding the process of IFRS adoption in developing economies is crucial because the process through which IFRS are adopted significantly influences the relevance and importance of IFRS in these countries (Mir & Rahaman; 2005 as cited in Maradona; 2017). Refer to (Maradona and Chand; 2017) there are five different convergence approaches a country can choose in adopting IFRS, namely:

- a. full adoption of IFRS;
- b. ii) selective adoption of IFRS or adoption with a time lag;
- c. IFRS adoption with modification to account for country-specific characteristics;
- d. preservation of national accounting standards but in harmony with IFRS; and
- e. continuation of national accounting standards (Chand & Patel, 2011 p.15).

This also supported by Media Akuntansi (2005) as quoted by Immanuela (2009) who discovers that there are five levels of convergence, those are: a) full adoption, b) adapted, c) peacemeal, d) referenced and e) not adoption at all. Furthermore, Immanuela (2009) stated that there are several problems with the step of financial reporting standard adoption in some countries, particularly Indonesia, so that the level of financial reporting standard adoption is various.

While basically, the problem of coverage is begin with the bad interpretation from the IFRS. The IFRS is issued by IASB in english, so that sometimes there is an inconsistency between the IFRS and new standard, particularly between the concept and its aplication in some countries, for example, Indonesia. Furthermore, the obstacle that makes the IFRS can not fully adopted is that sometimes there is a lag between IFRS and national law in some countries, so that the IFRS must be transformed by the national accounting council of each countries. (Immanuela; 2009)

Highlighting the issues, there are several things need to ponderin process to adopt the IFRS standard to zakat institution:

3. Repositioning Role of Zakat Institution (As SMES)

Zakat intitution is a charitable organization that responsible for providing services regarding zakat fund management (Abd Wahab, et.al, 2017). They are also responsible to distribute the zakat fund for beneficiaries (Abd. Wahab, et.al, 2017) and also reported the financial statement to the stakeholders as one of the indicator of good governance i.e accountability to Allah and beneficiaries (Saad, et.al, 2014; Ihsan and Ayedh, 2015)

While according to Ayyagari et.al (2007) there is no similar term, definition or measurement of Small and Medium Enterprises (SMEs) due to the variance term, definition or measurement across the globe. However, the SMEs across the globe share similar characteristics that must included in the SMEs. Those are: a) number of employees, b) total net assets, c) sales and d) investement level

In the other hand, Ahmed (2002) stated that the Islamic Microfinance institution is an alternative of the failure of conventional microfinance institution. The Islamic Microfinance institution is a microentreprises finance institution that based on Islamic values. In addition, the Islamic Microfinance institution is totally different with the conventional microfinance institution. The differences between the two institution are in Liabilities source, Assest management, Financing scheme for the poor, target group and so on. This table below explains briefly the differences of those two institution

	Conventional Mfi	Islamic Mfi
Liabilities	External funds, Saving of clients	External funds, Savings of Clients, Islamic charitable sources
Assets (mode of financing)	Interest based	Islamic financial insturments
Financing the poor	Poorest are left out	Poorest can included by integrating zakat with microfinancing
Funds transfer	Cash given	Good transferred
Deductions at inception of contract	Part of the fund dedcuted at inception	No deductions at inception
Target group	Woman	Family
Objetives of target group	Empowerment of woman	Ease of availability
Liability of the loan	Recipient	Recipient and spouse
Work incentive of employeses	Monetary	Monetary and religious
Dealing with default	Group/center pressure and threats	Group/center/spouse guarantee and Islamic ethics
Social development program	Secular	Religious

Source: Ahmed, 2002

As we discuss earlier about the characteristics of SMEs, Islamic Microfinance and Zakat institution, we found that practically the zakat institution resembles the Islamic Microfinance characteristics through the zakat for productive program. Moreover, the zakat institution is also resembles the SMEs characteristic through the invesment and sales aspect. So here is the summary that contain the similarities of those institution:

Characteristics of SMEs (Ayyagari, et.al, 2007)	Islamic institution	Microfinance Zakat Institution
Number of employees	Yes	Yes
Total net assets	Yes, mostly from client savings and Islamic charitable fund (Ahmed, 2002)	Yes, form zakat fund which is an obligation in Islam
Sales	Yes, using Islamic finance schemes (Ahmed, 2002)	Yes, using Islamic finance Schemes
Investment	Yes, using Islamic finance schemes (Ahmed, 2002)	Yes, To the low income level through zakat for productive program (Yuman and Clarke, no year; Hassan and Noor, 2015)

Source: Author, processed

From the table above we argue that the zakat institution share the same characteristics with SMEs criteria on Number of employees, total net assets, sales and investment aspect. The characteristics then support the argument that practically zakat institution is similar to a SMEs organization. Hence, the performance of zakat institution can be measured also under IFRS standard.

4. Proposing IFRS for SME as based financial reporting standard for zakat institution

The IFRS for SMEs is issued by The International accounting standard board (IASB) at first in 2009. While The IASB itself was established in 2001 in order to develop and set high quality of financial reporting standards based on clearly articulated principles. (IFRS for SMEs, 2015). However, at first IASB Issued IFRS for larger entities only. But later, IASB also issued IFRS for smaller entities in order to fulfill its own objective. Therefore, in 2009, IASB Issued IFRS for SMEs (IFRS for SMEs, 2015)

This issuance of the standard perhaps a reply from IASB after having some critics and suggests from some scholar about the financial reporting standard for smaller entities. One in particular is Fearnley and Hines (2007). They argue that non-listed entities in the United Kingdom are having trouble with the application of Full IFRS. Therefore they suggest to simplify the IFRS that later could be applicable to non-listed entities.

However, the IFRS for SMEs is not directly accepted by some countries. There are some challenges facing the IFRS for SMEs application. It is because, some scholars criticized the application of IFRS for SMEs and accused that it is too complex for non-listed entities. (Van Wyk and Rossouw, 2009; Francis and Agbeibor, 2012). Van Wyk and Rossouw (2009) for instance stated that IFRS for SMEs is too complex to be applied in South Africa. It is because there is a scepticism among accounting practitioners whether the IFRS for SMEs could be the solution for the burden of financial reporting for SMEs. Moreover they also found that IFRS for SMEs is not deemed to be relevant for SMEs in Africa. Therefore, they suggest to IASB to accommodate and possibly omitting the topics that related to the group statements

While Francis and Agbeibor (2012) share the same opinion with Van Wyk and Rossouw (2009). They found that Small Business in Ghana have limited international structures and activities which result that IFRS for SMEs is not an appropriate accounting standard in Ghana. Therefore they future study to consider the perspective of SMEs's stakeholder, particularly in tax authorities and size categories of SMEs.

Moreover, study like Perera and Chand (2015) and Mantzari, et.al (2017) urge to modified and simplified the IFRS for SMEs. It is because, their study conclude that the IFRS for SMEs is not represented the accounting of SMEs in some countries. Mantzari et.al (2017) added that, the application of IFRS for SMEs by Greek non-listed entities is pursued by the hegemony and pressure of Europe Commission. In fact, practitioners are not fully understand about the IFRS for SMEs.

Meanwhile, Perera and Chand (2015) also reveal that the adoption of IFRS for SMEs across the globe is still a challenge for small entities, especially micro entities. Some countries even modified and simplified the IFRS for SMEs to be more familiar with the small entities lately known as local standard. The local standard then used by small entities as financial statement of their business. In addition, they stated that the adoption from local standard to IFRS for SMEs

would increase the cost of preparation for SMEs. The cost is associated with training, extra consultation and so on.

In the other hand, some studies is supporting the application of IFRS for SMEs (Masca, 2012; Uyar and Gungormus, 2013; Pacter, 2014). Masca (2012) stated that the EU Commission considered the IFRS for SMEs is too complex, involved big cost and did not take the development of SMEs itself. However he found that those reason are only the justification to not apply the IFRS for SMEs. It is because, those reasons are influenced by the accounting culture and geographic area whic they are operate. Therefore, there is no problem with IFRS for SMEs strandard, but the problem is the practitionaries itself. And IFRS for SMEs is always challenging

Uyar and Gungormus (2013) share the same idea with Masca (2012). They found that the knowledge and perceptions of accountant regarding IFRS for SMEs in Turkey is low. It is because the practitioner in Tukey are lack of training programs that arranged by professional. Therefore, they are not highly informed the omission of certain topics in IFRS for SMEs.

Furthermore, Pacter (2014) claims that the application of IFRS for SMEs will enhance the quality and comparibility of SMEs financial statements arround the world. It is also will conduct the SMEs to gain finance access to larger entities. This such practice is not only good for the institution, but also good for the beneficiaries of the institution. Moreover, this such statement is also supported by the IASB as the institution that issued the IFRS for SMEs (IFRS for SMEs, 2015)

The IFRS for SMEs consist of 35 standard. (IFRS for SME, 2015) And it is all the simplification of full IFRS standard in order to accomodates the SMEs criteria. However, not all the standard of IFRS for SMEs are applicable to the zakat institution. It is because some of the SMEs criteria such investment is not found in the Zakat institution criteria. Thereby, we classify the scope of IFRS for SME Standard that applicabe for zakat institution. And this table belows explain the simplification of IFRS for SMEs standard that applicable to the zakat institution.

IFRS for SMEs		Compatibility for Zakat Institution	
Section	Topic		
I	SMEs entities Description: do not have public accountability, publish general purpose financial statements for external users	Publish	financial statements for external users (stakeholders, zakat payers and beneficiaries)

2	Concept and pervasive principles: Balance between benefit and cost, in which push the institution to determine the Financial position, performance, Recognition and measurement of Assets, liabilities, income and expenses.	Financial statement is important for the accountability of the zakat institution
3	Financial statement presentation: Compliance with IFRS for SMEs standard	The presentation of financial statement must comply with Islamic law
4	Statement of Financial position: Information to be presented are: cash, financial assets, inventories, financial liabilities, trade and other receivable, investment property and depreciation, intangible assets, biological assets, current tax, non controlling interest and provision	Information to be presented are: cash, financial assets, financial liabilities, and receivable assets from other party
5	Income statement and comprehensive income statement: Revenue and expenses	Income statement: revenue: zakat fund, expenses: zakat program including zakat for productive purposes
6	Statement of equity	Statement of Equity in zakat for productive purposes
7	Statement of cash flows	Statement of cash flows in zakat for productive purposes, particularly for the financing activities (zakat for productive purposes)
II	Basic financial instrument: is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity	Statement of long term loan to another entity as one of the product of zakat for productive purposes (qardh hasan)
22	Liabilities and equity: classifying the financial	Classifying the financial

	assets as liabilities of equity	assets under Islamic finance scheme (zakat for productive purposes product) to liabilities or equity
23	Revenue collected from: sale of goods, services, leases or construction contracts	Statement of revenue from Zakat for productive purposes under Islamic finance schemes
28	Employee benefits: all form of consideration given by an entity in exchange for service rendered by employees, including directors and management	Statement of the benefit that gained by the employees as they are <i>aamil</i>

Source: IFRS for SMEs (2015)

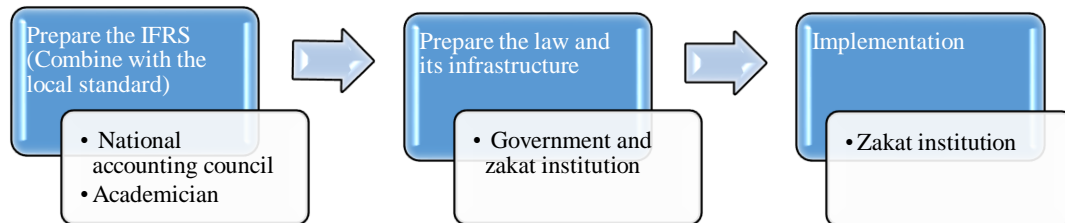
Those are the standards of IFRS for SMEs that could be applicable to zakat institution. However, we only discuss the scope of IFRS for SMEs standard that quite similar to the application of zakat institution, particularly in zakat for productive purposes.

c. Step by Step Transitioning Proposal to adopt The IFRS Standards

As it was stated before, that the IFRS is issued by IASB in english, so perhaps the very first step in adopting IFRS as standard of financial reporting for zakat institution is interpreting IFRS. Therefore the IFRS be more simplified and applicable for zakat institution. Alongside with it, the law must be prepared. This is important considering one of the problem in adopting IFRS, that there is a lag between IFRS and national law.

Moreover, some countries such Indonesia for example has already have the financial reporting standard for zakat and infaq/sadaqa which is stated in the PSAK Sharia 109. Combining the IFRS and local standard is critical so that the zakat institution can be more transparent and stakeholders can also fully support the development of zakat institution in the future, considering the argument from Alkhtani (2012) which stated that the IFRS provides useful information for decision making. This combination also will answer critics about PSAK 109 from Alim (2015) which proposed that there must be a revision on PSAK 109 particularly in the issue about zakat for productive purpose.

Nevertheless, Based on Lestari (2015) generally the process of adopting IFRS (for example in Indonesia) is simplified by this graph below:

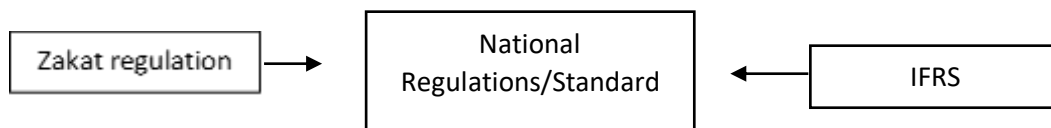


Source: Lestari, (2015)

Firstly, there must be a preparation on the supporting infrastucture and also evaluation and impact factor that would be happened after the adoption of IFRS. This phase involve an input and reccomendation from academician and this phase is organized by the National accounting council of each countries. Afterwards, the law and its infrastucture must be done by Government and also involving zakat. The application of some standard must begin in this phase. And last after all of the preparation is done, the standard can be implemented to all zakat institution (Lestari, 2015)

D. RESULTS AND DISCUSSION

By incorporating insights from the theories, the preliminary analysis of logical suitability, with an in-depth understanding of the local environment we propose and discuss in this section several scenarios for the IFRS for Zakat Institution implementation. At a basic level, the main influences on the financial reporting regulations of zakat Institution



IFRS implementation is necessary for Zakat Institution for the support of global economic and finance development especially Sustainable Development Growth (SDGs), and for providing useful and comparable information (thesis). This is important, considering that without IFRS it is difficult to measure the SDGs. Reciprocally, SDGs is incomplete without IFRS. Therefore, aligning IFRS with SDGs is *sine qua non* (Sapovadia, 2017). Moreover, Sapovadia (2017)

explains the reason why IFRS is important for SDGs. It is because, a business enterprise is established by the resource from society / government and environment, so that's why the proper financial reporting which stated the contribution that a business enterprise will give to its resource will be beneficial for all elements of the business enterprise. Moreover, it is also can make the financial report more understandable and more transparent.

Based on this argument, IFRS for Zakat Institution should be adopted and implemented. In this context, the IFRS for Zakat Institution implementation provides new opportunities for being of great interest for researchers, practitioners and regulatory bodies. Particularly the financial report that will give brief information about the contribution of zakat institution for its stakeholders.

C. CONCLUSION

The development of zakat institution is massive. At least it is proved by the development of zakat fund (Al Parisi, 2017) and the development of zakat program in some countries, lately known as zakat for productive purposes program (Hassan and Noor, 2015; Yuman and Clarke, No Year). However, zakat institution in Indonesia also needs an evaluation and suggestion, particularly in the term of financial reporting standard that still have fiqh issues, particularly in the reporting of zakat for productive purpose. This is important, considering that the financial reporting of zakat institution is a measurement of good governance of the institution. Whereas the financial reporting is a measurement of accountability and transparency of an institution. Since Alim (2015) comes up with critics about the PSAK 109 that rules the financial reporting standard for zakat infaq and saqada

Therefore, this study attempts to evaluate the characteristics of zakat institution and compare it with the characteristics of Islamic Microfinance Institution and Characteristics of Small and Medium Enterprises (SMEs) in Indonesia, so then the International Financial Reporting Standard (IFRS) which is a financial standard that accept globally can be used as a main reference for evaluating the PSAK 109 about zakat infaq and shadaqa.

Thereby, this study found that practically zakat institution is similar to the SMEs. Since they share similar characteristics which are: Number of employees, Total net assets, Sales and Investment. (Ayyagari, et.al, 2007) Thereby, we use the IFRS for SMEs standard as a financial statement measurement.

Moreover this study also found that IFRS for SMEs consist of 35 standard (2015) and we propose for minimum 11 of them to use in Zakat institution,

particularly zakat for productive purposes. However, those I I standard are related only to the financial structure of zakat institution, and not comply yet to the Islamic law. Therefore, we suggest future studies could discuss the sharia compliance in the adoption of IFRS for SMEs to zakat institution.

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**Ifrs Based Zakat Reporting: Adoption Rational Westernmethod Into
Institutional Accountability**

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